

Message Text

CONFIDENTIAL

PAGE 01 LISBON 03881 01 OF 04 250916Z
ACTION EUR-12

INFO OCT-01 IO-13 ISO-00 CIAE-00 DODE-00 PM-05 H-01
INR-10 L-03 NSAE-00 NSC-05 PA-01 SP-02 SS-15
ICA-11 AID-05 COME-00 EB-08 FRB-03 TRSE-00 XMB-02
OPIC-03 LAB-04 SIL-01 OMB-01 AGRE-00 CEA-01 STR-07
DOTE-00 /114 W

-----110915 250948Z /10

R 250731Z MAY 78
FM AMEMBASSY LISBON
TO SECSTATE WASHDC 5826
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
USMISSION GENEVA
AMEMBASSY LONDON
AMEMBASSY PARIS

C O N F I D E N T I A L SECTION 1 OF 4 LISBON 3881

PARIS ALSO FOR OECD; BRUSSELS FOR USEC; DEPT PASS TREASURY
FOR SYVRUD

E.O. 11652: GDS
TAGS: ECON EFIN PO
SUBJECT: PORTUGAL'S ECONOMIC PROBLEM: PART I - BALANCE
OF PAYMENTS PROSPECTS

REF: A) LISBON 2896, B) LISBON 2188, C) LISBON 2189

BEGIN SUMMARY. EMBASSY'S REVISED BALANCE OF PAYMENTS PROJECTIONS
INDICATE THAT PORTUGAL, HAVING CONCLUDED AN IMF ACCORD, WILL
HAVE SUFFICIENT LIQUIDITY TO COVER ITS 1978 EXTERNAL NEEDS.
THE OUTLOOK FOR 1979 IS QUITE DIFFERENT. EVEN UNDER OP-
TIMISTIC ASSUMPTIONS, PORTUGAL WILL FACE A FINANCING GAP OF
SOME \$700 MILLION NEXT YEAR. WITH AN ECONOMIC
RECOVERY PROGRAM, THE GAP WILL TEND TO GROW EVEN LARGER OVER
THE MEDIUM TERM. END SUMMARY.

CONFIDENTIAL

CONFIDENTIAL

PAGE 02 LISBON 03881 01 OF 04 250916Z

1. THIS MESSAGE, THE FIRST OF A THREE-PART SERIES, PROVIDES THE
EMBASSY'S MOST RECENT PROJECTIONS FOR PORTUGAL'S 1978 AND 1979
BALANCE OF PAYMENTS. THESE PROJECTIONS INDICATE THAT PORTUGAL,
BY DRAWING CREDITS AVAILABLE FROM THE COORDINATED MULTILATERAL
LENDING PROGRAM AND BY SELLING A CONSIDERABLE AMOUNT OF ITS
FOREIGN RESERVES, WILL OBTAIN SUFFICIENT LIQUIDITY TO COVER

ITS 1978 EXTERNAL FINANCING REQUIREMENTS. THEY INDICATE, HOWEVER, THAT PORTUGAL FACES A POTENTIAL FINANCING GAP OF \$700 MILLION IN 1979. THE GOP WILL HAVE TO MOVE PROMPTLY IF IT IS TO AVOID ANOTHER FINANCIAL CRISIS NEXT YEAR.

2. GENERAL CONSIDERATIONS UNDERLYING THIS BALANCE OF PAYMENTS PROJECTION ARE:

- A. WORLD TRADE EXPANSION OF ONLY 3-4 PERCENT IN 1978 AND 1979, IN REAL TERMS.
- B. AN AVERAGE 5 PERCENT RISE IN INTERNATIONAL DOLLAR PRICES IN EACH OF THE TWO YEARS.
- C. PORTUGUESE GNP REAL GROWTH OF NO MORE THAN 2 PERCENT IN 1978 AND 4 PERCENT IN 1979.
- D. CONTINUING GRADUAL DEPRECIATION OF THE ESCUDO SUFFICIENT TO MAINTAIN PORTUGAL'S COMPETITIVE POSITION.
- E. A RELATIVELY TIGHT CREDIT POLICY, BUT INTEREST RATES WHICH ARE BELOW THE RATE OF DOMESTIC INFLATION.
- F. AN AGGRESSIVE GOP EFFORT TO STIMULATE EXPORTS.
- G. A MODERATE INCREASE IN PRIVATE INVESTMENT, BUT SUBSTANTIAL CAPITAL FLIGHT.
- H. A SOMEWHAT SLOWER RATE OF DECLINE IN PERSONAL INCOME THAN DURING 1977.
- I. RELATIVELY QUIET PORTUGUESE LABOR SCENE.

3. FOLLOWING ARE THE EMBASSY'S MOST RECENT PROJECTIONS:

GOP BALANCE OF PAYMENTS

CONFIDENTIAL

CONFIDENTIAL

PAGE 03 LISBON 03881 01 OF 04 250916Z

(MILLIONS OF DOLLARS)

| | 1978 | 1979 |
|-------------------------------|--------|--------|
| I. CURRENT ACCOUNT | -1,196 | -1,060 |
| A. TRADE BALANCE (FOB) | -2,380 | -2,450 |
| 1. IMPORTS | -4,630 | -4,950 |
| 2. EXPORTS | 2,250 | 2,500 |
| B. SERVICES | -40 | 40 |
| 1. TOURISM | 420 | 550 |
| A. DEBIT | -145 | -155 |
| B. CREDIT | 565 | 705 |
| 2. TRANSPORTATION | -110 | -115 |
| A. DEBIT | -395 | -415 |
| B. CREDIT | 285 | 300 |
| 3. INVESTMENT INCOME (NET) | -300 | -340 |
| 4. OTHERS (NET) | -50 | -55 |
| C. PRIVATE TRANSFERS (NET) | 1,225 | 1,350 |
| II. CAPITAL ACCOUNT | 909 | 340 |
| A. SHORT TERM (NET) | 200 | 200 |
| B. MEDIUM AND LONG TERM | 709 | 140 |
| 1. DEBT AMORTIZATION | -960 | -710 |
| 2. PRIVATE FOREIGN INVESTMENT | 125 | 200 |
| 3. PRIVATE FINANCE | 350 | 250 |

4. WORLD BANK 10 40

CONFIDENTIAL

NNN

CONFIDENTIAL

PAGE 01 LISBON 03881 02 OF 04 250900Z
ACTION EUR-12

INFO OCT-01 IO-13 ISO-00 CIAE-00 DODE-00 PM-05 H-01
INR-10 L-03 NSAE-00 NSC-05 PA-01 SP-02 SS-15
ICA-11 AID-05 COME-00 EB-08 FRB-03 TRSE-00 XMB-02
OPIC-03 LAB-04 SIL-01 OMB-01 AGRE-00 CEA-01 STR-07
DOTE-00 /114 W

-----110740 250947Z /10

R 250731Z MAY 78
FM AMEMBASSY LISBON
TO SECSTATE WASHDC 5827
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
USMISSION GENEVA
AMEMBASSY LONDON
AMEMBASSY PARIS

C O N F I D E N T I A L SECTION 2 OF 4 LISBON 3881

PARIS ALSO FOR OECD

BRUSSELS FOR USEC

DEPT PASS TREASURY FOR SYVRUD

| | | |
|--------------------------------|------|------|
| 5. IMF (SECOND CREDIT TRANCHE) | 55 | 15 |
| 6. EFTA | 20 | 25 |
| 7. EUROPEAN COMMUNITY (E.I.B.) | 40 | 50 |
| 8. COORDINATED LOAN PROGRAM | 635 | - |
| 9. OTHER MULTILATERAL | 5 | 5 |
| 10. U.S. BILATERAL | 279 | 40 |
| A. PL-480 | 40 | - |
| B. CCC | 200 | - |
| C. AID | 39 | 40 |
| 11. OTHER BILATERAL | 25 | 25 |
| 12. SUPPLIER CREDITS | 125 | 200 |
| III. DEFICIT | -278 | -720 |

CONFIDENTIAL

CONFIDENTIAL

PAGE 02 LISBON 03881 02 OF 04 250900Z

IV. GOLD SALES 325 -
V. INCREASE IN LIQUID ASSETS 47 -

4. EXPLANATORY NOTES:

A. THE TRADE ACCOUNT: THE 1978 PROJECTION ALLOWS A NOMINAL GROWTH OF 2 PERCENT IN IMPORTS AND 11 PERCENT IN EXPORTS. BOTH OF THESE FIGURES MAY BE SOMEWHAT OPTIMISTIC. AS TO IMPORTS, THE GOP WILL HAVE TO CONTEND CONSTANTLY WITH IMPORTERS SPECULATING AGAINST THE EXCHANGE/INTEREST RATES. ONLY A GENUINELY TIGHT DOMESTIC CREDIT CEILING, WHICH IMPLIES SOME PRODUCTION PROBLEMS GIVEN THE ADMINISTRATIVE CHARACTER OF CREDIT DISTRIBUTION PROCEDURES, WILL REALLY DAMPEN STOCK ACCUMULATION. IN ADDITION, GRAIN AND CRUDE OIL IMPORTS, WHICH TOGETHER ACCOUNT FOR NEARLY 1/3 OF THE TOTAL IMPORT BILL, WILL RISE BY ABOUT 15 PERCENT AND 13 PERCENT, RESPECTIVELY. THESE INCREASES REFLECT THE SHORT-FALL IN 1977 DOMESTIC AGRICULTURAL PRODUCTION AND THE GROWING DEMAND FOR PETROLEUM, ESPECIALLY CRUDE FOR THE NEW SINES REFINERY. WE ASSUME, HOWEVER, THAT THE GOVERNMENT WILL MINIMIZE THE IMPORTATION OF SEVERAL DISPENSIBLE ITEMS, NOTABLY FROZEN BEEF AND COD. AS TO EXPORTS, WE ASSUME THAT THE GOVERNMENT WILL TRANSLATE ITS ORAL COMMITMENTS INTO ACTIONS THAT PROMOTE TRADITIONAL AND NEW EXPORTS. IN ADDITION, WE ANTICIPATE THAT FAILING REAL INCOME, HIGH INTEREST RATES AND TIGHT CREDIT WILL INDUCE SOME SHIFT OF RESOURCES FROM DOMESTIC CONSUMPTION TO EXPORTS. WE PROJECT ESPECIALLY STRONG GROWTH IN EXPORTS OF SHOES (22 PERCENT), PREPARED FOODSTUFFS (15 PERCENT), CORK PRODUCTS (14 PERCENT), TRANSPORTATION EQUIPMENT (12 PERCENT) AND MACHINERY/ELECTRICAL EQUIPMENT (11 PERCENT). UNFORTUNATELY, THE TEXTILE SECTOR, WHICH ACCOUNTS FOR APPROXIMATELY 1/4 OF TOTAL EXPORTS, IS LIKELY TO REMAIN VIRTUALLY STAGNANT. THE 1979 FORECAST FOESEE A NOMINAL 7 PERCENT RISE IN

CONFIDENTIAL

PAGE 03 LISBON 03881 02 OF 04 250900Z

IMPORTS AND AN 11 PERCENT GROWTH IN EXPORTS. ALTHOUGH GOP WILL LIKELY SEEK TO CONTINUE RESTRICTING NON-ESSENTIAL IMPORTS, WE BELIEVE THAT IT WILL HAVE TO EASE THESE RESTRICTIONS SOMEWHAT, ESPECIALLY WITH ELECTIONS APPROACHING IN 1980; THAT INDUSTRIES WHICH DEplete THEIR INVENTORIES THIS YEAR WILL HAVE TO ENLARGE IMPORTS IN 1979; AND THAT THE ANTICIPATED GROWTH IN INVESTMENTS WILL NECESSITATE MORE EQUIPMENT PURCHASES. MOREOVER, THE DISAPPOINTING CEREAL CROP PROSPECTS THIS YEAR SUGGEST A CONTINUED HIGH LEVEL OF AGRICULTURAL IMPORTS IN 1979, AND THE ENTRY OF SINES INTO NORMAL OPERATIONS WILL REQUIRE SUBSTANTIALLY LARGER VOLUMES OF FOREIGN CRUDE. IN FACT, MOST IMPORT CATEGORIES ARE LIKELY TO VARY LITTLE FROM THEIR 1978

PROJECTED LEVELS. AGRICULTURAL COMMODITIES AND PETROLEUM WILL PROBABLY ACCOUNT FOR MOST OF THE ANTICIPATED IMPORT GROWTH. ON THE EXPORT SIDE, SOME OF THE EXPECTED NEW INVESTMENT AND STRUCTURAL PROGRAM INNOVATIONS THIS YEAR SHOULD BEGIN TO AFFECT EXPORT EARNINGS BY 1979. THE PROJECTIONS ARE PARTICULARLY OPTIMISTIC FOR THE EXPORT GROWTH OF PREPARED FOODSTUFFS (13 PERCENT), SHOES (20 PERCENT), CORK (13 PERCENT), TRANSPORTATION EQUIPMENT (11 PERCENT) AND MACHINERY/ELECTRICAL EQUIPMENT (13 PERCENT). SIMILARLY, THE SINES REFINERY IS EXPECTED TO EXPORT SOME \$60 MILLION IN PRODUCTS DURING 1979, ITS FIRST FULL YEAR OF OPERATION. ACHIEVEMENT OF THESE OBJECTIVES WILL BE EXTREMELY DIFFICULT, AT BEST. PORTUGAL CANNOT HOPE TO ACHIEVE THEM WITHOUT, AT LEAST, A PARTIAL RESTORATION OF PRIVATE SECTOR CONFIDENCE AND A WILLINGNESS TO REINVEST.

B. TOURISM: THE PROJECTION FOR TOURISM EARNINGS, ESPECIALLY ON A NET BASIS, ARE RATHER OPTIMISTIC. THE GOP,

CONFIDENTIAL

NNN

CONFIDENTIAL

PAGE 01 LISBON 03881 03 OF 04 250927Z
ACTION EUR-12

INFO OCT-01 IO-13 ISO-00 CIAE-00 DODE-00 PM-05 H-01
INR-10 L-03 NSAE-00 NSC-05 PA-01 SP-02 SS-15
ICA-11 AID-05 COME-00 EB-08 FRB-03 TRSE-00 XMB-02
OPIC-03 LAB-04 SIL-01 OMB-01 AGRE-00 CEA-01 STR-07
DOTE-00 /114 W

-----111016 250946Z /10

R 250731Z MAY 78
FM AMEMBASSY LISBON
TO SECSTATE WASHDC 5828
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
USMISSION GENEVA
AMEMBASSY LONDON
AMEMBASSY PRIS

CONFIDENTIAL SECTION 3 OF 4 LISBON 3881

PARIS ALSO FOR OECD

BRUSSELS FOR USEC

DEPT PASS TREASURY FOR SYVRUD

HOWEVER, IS STRIVING TO STIMULATE THIS SECTOR AND TO PROVIDE SUFFICIENT CAPACITY FOR THE ANTICIPATED DEMAND. MOREOVER, PORTUGAL SHOULD BE ABLE TO END THE EXAGGERATED DISCOUNT PRICES IT HAS OFFERED DURING THE PAST TWO YEARS. AS A RESULT OF THE ABOVE, WE INDICATE A GROWTH IN GROSS TOURISM RECEIPTS OF 35 PERCENT IN 1978 AND 25 PERCENT IN 1979. CONTRARY TO THE GOP PROJECTION, WHICH FORESEES A SURPRISINGLY LARGE DECLINE IN TOURISM OUTLAYS, WE ANTICIPATE THAT THEY WILL GROW BY AT LEAST A NOMINAL 5 PERCENT IN BOTH 1978 AND 1979. AS A RESULT, OUR PROJECTIONS OF NET TOURISM RECEIPTS SHOW A RISE OF 50 PERCENT IN 1978 AND 32 PERCENT IN 1979. THE GOP WILL HAVE TO STRAIN ALL OF
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 LISBON 03881 03 OF 04 250927Z

ITS RESOURCES TO REACH THE 1979 TARGET.

C. TRANSPORTATION: A SIMILARLY OPTIMISTIC ASSUMPTION UNDERLIES THE PROJECTION OF ONLY 4.5 PERCENT NOMINAL INCREASE IN THE TRANSPORT ACCOUNT DEFICIT. IN LARGE PART THIS PROJECTION REFLECTS EXPECTATIONS THAT THE NATIONAL AIRLINE WILL AUGMENT ITS CARRIAGE SIGNIFICANTLY. THE PROJECTION ASSUMES ALSO THAT THE GOP, CONTRARY TO EARLIER INDICATIONS, WILL NOT RISK A LONG MARITIME STRIKE BY REJECTING THE MERCHANT MARINE UNION'S NEW CONTRACT DEMANDS.

D. INVESTMENT INCOME DEFICIT IS EXPECTED TO GROW SUBSTANTIALLY IN 1978 AND TO EXPAND, THOUGH AT A SLOWER RATE, IN 1979. THE SHARP RISE IN INTEREST PAYMENTS ON THE FOREIGN DEBT ARE A MAJOR CAUSE OF THIS GROWING DEFICIT. THEY WILL APPROXIMATE \$150 MILLION IN 1978 AND A LARGER AMOUNT IN 1979. IN ADDITION, REMITTANCES OF PROFITS, DIVIDENDS, AND ROYALTIES WILL LIKELY GROW SUBSTANTIALLY THIS YEAR FOR SEVERAL REASONS; MANY COMPANIES ENJOYED SUBSTANTIAL PROFITS IN 1977; FOR THE FIRST TIME IN ALMOST FOUR YEARS, MANY OF THEM ARE HIGHLY LIQUID; SEVERAL HAVE SUBSTANTIAL REMITTANCES PENDING FROM EARLIER YEARS; AND THEY ARE STILL DISPOSED TO SPECULATE AGAINST THE ESCUDO. THE GROWTH RATE OF THIS DEFICIT WILL LIKELY DIMINISH IN 1979 BECAUSE COMPANY PROFITS THIS YEAR WILL PROBABLY BE SMALLER THAN IN 1978 AND LIQUIDITY MAY BE A PROBLEM. IN ADDITION, IF CONFIDENCE GROWS, SOME FIRMS MAY USE THEIR PROFITS FOR OPERATIONAL NEEDS OR INVESTMENT RATHER THAN FOR REMITTANCES.

E. PRIVATE TRANSFERS NOW APPEAR LIKELY TO RISE MORE THAN THE 2 PERCENT PROJECTED FOR 1978 IN LISBON 2189, BUT NOT BY THE 10.6 PERCENT FORESEEN BY THE GOP. THE EMBASSY PROJECTS AN INCREASE OF 8 PERCENT IN 1978 AND 10 PERCENT IN 1979. THE FIGURE FOR THIS YEAR RESTS LARGELY ON: THE BELIEF THAT THE ESCUDO'S CRAWLING DEVALUATION WILL ENCOURAGE EMIGRANTS TO DELAY REMITTING THEIR SAVINGS, THE
CONFIDENTIAL

CONFIDENTIAL

PAGE 03 LISBON 03881 03 OF 04 250927Z

NUMBER OF PORTUGUESE RESIDENTS IN WESTERN EUROPE HAS NOT INCREASED SIGNIFICANTLY, THE INDUSTRIALIZED ECONOMIES SHOW NO PROMISE OF A MAJOR RECOVERY THIS YEAR, AND THE ESTIMATED JANUARY-MARCH REMITTANCES WERE ONLY 6.8 PERCENT OVER THE SAME PERIOD OF 1977. FOR 1979 WE ARE SOMEWHAT MORE OPTIMISTIC IN ANTICIPATION OF HIGHER GROWTH RATES IN WESTERN EUROPE, GREATER CONFIDENCE IN PORTUGAL'S STABILITY, AND AN AGGRESSIVE GOP EFFORT TO ENCOURAGE REMITTANCES.

F. CAPITAL ACCOUNT:

1. SHORT-TERM (NET) BORROWINGS COULD CONTINUE INCREASING, GIVEN THE FOREIGN BANKING SYSTEM'S MORE FORTH-COMING ATTITUDE FOLLOWING CONCLUSION OF IMF NEGOTIATIONS. THEY MAY GROW BY SOME \$200 MILLION THIS YEAR AND AN ADDITIONAL \$200 MILLION IN 1979. THE RAPID GROWTH OF THIS DEBT IS, AS THE GOP RECOGNIZED IN ITS LETTER OF INTENT TO THE IMF, UNDESIRABLE. FOREIGN BANKS, HOWEVER, ARE STILL RESISTING GOP REQUESTS FOR MEDIUM TO LONGER TERM FINANCING. STRONG GOP PRESSURE MAY, NEVERTHELESS, OBLIGE THEM TO EXTEND LONGER TERMS. WHETHER PORTUGAL ACTUALLY UTILIZES A FURTHER \$200 MILLION IN SHORT-TERM CREDITS DEPENDS UPON GOP SUCCESS IN SQUEEZING A LARGE VOLUME OF MEDIUM-TERM FINANCING FROM THE BANKS,

2. DEBT AMORTIZATION HAS BECOME AN EXTREMELY HEAVY BURDEN. THE PROJECTION FOR 1978 SHOWS TOTAL PAYMENTS OF \$960 MILLION. THE DEBT DUE WAS ACTUALLY \$1.6 BILLION, BUT BANK OF PORTUGAL HAS RE-NEGOTIATED ITS GOLD-SECURED DEBTS TO EUROPEAN CENTRAL BANKS. AGREEMENT PROVIDES FOR EQUAL MONTHLY PAYMENTS OF \$30 MILLION FOR FORTY-TWO MONTHS, BEGINNING JANUARY 1978. THESE PAYMENTS ARE LISTED UNDER MEDIUM AND

CONFIDENTIAL

NNN

CONFIDENTIAL

PAGE 01 LISBON 03881 04 OF 04 250943Z
ACTION EUR-12

INFO OCT-01 IO-13 ISO-00 CIAE-00 DODE-00 PM-05 H-01
INR-10 L-03 NSAE-00 NSC-05 PA-01 SP-02 SS-15
ICA-11 AID-05 COME-00 EB-08 FRB-03 TRSE-00 XMB-02
OPIC-03 LAB-04 SIL-01 OMB-01 AGRE-00 CEA-01 STR-07
DOTE-00 /114 W

-----111171 250945Z /10

R 250731Z MAY 78

FM AMEMBASSY LISBON
TO SECSTATE WASHDC 5829
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
USMISSION GENEVA
AMEMBASSY LONDON
AMEMBASSY PARIS

C O N F I D E N T I A L SECTION 4 OF 4 LISBON 3881

PARIS ALSO FOR OECD; BRUSSELS FOR USEC; DEPT PASS TREASURY
FOR SYVRUD

LONG TERM CAPITAL MOVEMENTS BECAUSE THEIR PAST RENEWALS
AND THE CURRENT AMORTIZATION SCHEDULE CLEARLY REMOVES THEM
FROM THE SHORT-TERM CATEGORY. PROJECTION FOR DEBT AMORTI-
ZATION IN 1979 RISES FROM THE PREVIOUSLY INDICATED LEVEL
(WHICH EXCLUDED GOLD-SECURED LOAN PAYMENTS) OF \$350
MILLION TO \$710 MILLION.

3. PRIVATE FOREIGN INVESTMENT AND PRIVATE FINANCIAL
CREDITS ARE ANTICIPATED TO REACH \$475 MILLION IN 1978 AND
\$550 MILLION IN 1979. THESE PROJECTIONS IMPLICITLY INCLUDE
A SIGNIFICANT EXPANSION OF DIRECT INVESTMENT THIS YEAR
AND A RATHER SHARP GROWTH NEXT YEAR. AGAIN, REALIZATION
OF THESE TARGETS DEPENDS HEAVILY UPON PRIVATE SECTOR
CONFIDENCE. THE RELATIVELY HIGH LEVELS SHOWN FOR MID TO
LONGER TERM PRIVATE FINANCING WILL NOT BE COMPLETELY AUTONO-
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 LISBON 03881 04 OF 04 250943Z

MOUS. WE EXPECT THE GOP TO APPLY CONSIDERABLE PRESSURE
ON FINANCIAL INSTITUTIONS TO DE-EMPHASIZE SHORT TERM
CREDITS. GIVEN THE HIGH LEVEL OF INTERNATIONAL LIQUIDITY
AND BANKER DESIRES TO STAY IN THE SHORT TERM MARKET, BANKS
WILL ALMOST CERTAINLY YIELD, AT LEAST PARTIALLY, TO THESE
PRESSURES. IN MANY WAYS, AN EFFECTIVE TRADE-OFF WILL EXIST
BETWEEN PORTUGAL'S USE OF SHORT TEM AND MEDIUM TERM CREDITS.

4. PROJECT FINANCING IS ALWAYS AN EXTREMELY DIFFICULT
ITEM TO PREDICT. TO DATE, THE GOP HAS CONSISTENTLY FAILED
TO TAKE FULL ADVANTAGE OF AVAILABLE PROJECT FINANCING.
TAKING A RELATIVELY OPTIMISTIC VIEW, HOWEVER, THESE PRO-
JECTIONS PRESUME THAT THE GOP MUST AND WILL IMPROVE ITS
PERFORMANCE. THE PROJECTION FOR U.S. 1979 BILATERAL ASSISTANCE
INCLUDES ONLY ANTICIPATED DRAWDOWNS FROM THE U.S. AID
PIPELINE. IT DOES NOT INCLUDE A FIGURE FOR FURTHER PL-480
AND CCC CREDITS. SIMILARLY, IT PROJECTS ONLY A SECOND
TRANCHE IMF DRAWDOWN, LEAVING OPEN THE QUESTION OF THIRD
AND FOURTH CREDIT TRANCHE DRAWDOWNS.

5. SUPPLIER CREDITS ARE INCLUDED AS A SEPARATE CATEGORY BECAUSE THEIR IMPORTANCE MAY INCREASE SUBSTANTIALLY IN 1978 AND 1979. DURING THE PAST SEVERAL YEARS, THE AVAILABILITY OF MEDIUM TO LONGER TERM SUPPLIER CREDITS HAS BEEN RELATIVELY SMALL. MOST SUCH FINANCING FELL UNDER SHORT-TERM CREDITS OR WAS ASSOCIATED WITH ONE OR ANOTHER ASSISTANCE PROGRAMS. NOW, HOWEVER, SUPPLIERS MAY BE MORE DISPOSED TO EXTEND CREDIT IN THAT PORTUGAL'S REGULATIONS WILL PRESSURE THEM TO DO SO, INVESTMENT IN MACHINERY WILL PRESUMABLY BE INCREASING, THE FINANCIAL MARKET WILL ENCOURAGE SUCH OPERATIONS, ETC.

G. GOLD SALES THIS YEAR WILL AGAIN BE RELATIVELY LARGE. THEY MAY APPROXIMATE \$325 MILLION, I.E. VIRTUALLY THE ENTIRE
CONFIDENTIAL

CONFIDENTIAL

PAGE 03 LISBON 03881 04 OF 04 250943Z

AMOUNT OF REPAYMENT ON THE CENTRAL BANK GOLD-SECURED LOANS. NO GOLD SALES ARE PROJECTED FOR NEXT YEAR. THEY WILL PRESUMABLY BE A RESIDUAL, UTILIZED TO COVER THAT PORTION OF THE DEFICIT WHICH IS NOT FINANCED FROM OTHER SOURCES.
BLOOMFIELD

CONFIDENTIAL

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC CONDITIONS, BALANCE OF PAYMENTS
Control Number: n/a
Copy: SINGLE
Draft Date: 25 may 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978LISBON03881
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D780220-1042
Format: TEL
From: LISBON
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780520/aaaaaqmf.tel
Line Count: 464
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 74ccba96-c288-dd11-92da-001cc4696bcc
Office: ACTION EUR
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 9
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 78 LISBON 2896, 78 LISBON 2188, 78 LISBON 2189
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 01 jun 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2574883
Secure: OPEN
Status: NATIVE
Subject: PORTUGAL'S ECONOMIC PROBLEM: PART I - BALANCE OF PAYMENTS PROSPECTS
TAGS: ECON, EFIN, PO
To: STATE
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/74ccba96-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014